Testimony of Christopher Bohn
CF Industries, Inc.

Good morning Madam Chairman and members of the Commission and Staff. My name is Christopher Bohn. I am the Vice President of Corporate Planning at CF Industries. I have held this position since October of 2010. Prior to that time I was CF Industries' Director of Corporate Planning. I hold a bachelor's degree in finance from Indiana University and an MBA from Northwestern University's Kellogg School of Management.

I appreciate the opportunity to appear before you this morning, and to discuss why CF Industries strongly supports the continuation of the Russian and Ukrainian urea orders for an additional five year period. In my position at CF Industries, my job involves—every day—the type of predictive analysis that this Commission is required to undertake in its sunset reviews. And, believe me, I appreciate the difficulty of your job. CF Industries' strategic planning and forecasting functions, which are in my portfolio of responsibilities, require a careful examination of current and expected market conditions, to help us determine how CF Industries should best position itself to bring the best returns to our shareholders. Because of my role in strategic planning functions at CF Industries, I was closely involved in the company's decision to seek continuation of the two remaining urea antidumping orders. My goal in appearing before you today is to explain why we have concluded that keeping these orders is not only desirable but necessary. I will tell you that we did not take this decision lightly or make it quickly. Our assumption had been that we would not need to be here, so the decision to again

request continuation was a hard one for our company. We are convinced it was the right one.

CF Industries operates the largest solid urea production facility in the United States. Our plant is located in Donaldsonville, Louisiana, and has a total annual solid urea capacity of about 1.7 million tons. We also have a substantial interest in a urea plant in Medicine Hat, Alberta, Canada, from which we serve customers in the Upper Midwest and Pacific Northwest. We also own a plant in Courtright, Ontario, from which we serve customers in Eastern Canada and the Northeastern United States.

In the United States, the primary demand for solid urea has always been and continues to be for use as a nitrogen fertilizer, which today accounts for roughly 80 percent of total urea demand. The remaining 20 percent is used in a variety of industrial applications such as resins and as an animal feed supplement. For CF Industries, the vast majority of our solid urea production goes for fertilizer uses, although a portion of our production does go to industrial customers.

In the United States, solid urea is the most widely used nitrogen fertilizer. It has a high nitrogen content of 46% and is relatively easy to handle, store and apply. Unlike UAN solutions or ammonia, the other two widely used nitrogen fertilizers, urea does not require any specialized application equipment. It can be applied using any one of a variety of different types of equipment designed for the application of dry fertilizer products. Urea is used on almost every major crop produced in the United States, including corn, wheat, rice, cotton, and pasture. Urea can be spread by itself onto the field, which we call "direct application," or blended with other dry fertilizer products such as phosphate and/or potassium.

The U.S. distribution system for urea has changed very little since the Commission first examined the urea market. Urea is moved up the Mississippi River in 1,500 ton barges to distribution terminals owned by U.S. producers and large distributors. Urea also is moved into the market by rail and truck.

A high percentage of urea imports enter at Gulf ports, particularly through New Orleans. Urea imports move through the same distribution channels as U.S. produced urea, with large vessels unloading urea onto barges or into facilities from which it is moved into the key consuming regions largely by rail.

U.S. producers generally sell to local and regional distributors who in turn sell to dealers or sometimes directly to farmers. These large customers, particularly regional distributors, also purchase and sell imported urea. U.S. producers compete head to head with imports on a day to day basis. Imports are and will remain an important source of supply. In 2010, imports supplied about three-quarters of U.S. solid urea demand. U.S. producers such as CF Industries and PCS Nitrogen have recognized the role of imports—which has been growing as U.S. production has declined—and have invested in production outside of the United States which is used to supplement our domestic production. A significant portion of imports is therefore associated with companies which, like CF Industries, also have U.S. production.

Most other imported urea, however, is brought into the United States by large trading companies, such as Transammonia. These same traders also move large quantities of urea from Russia and Ukraine to other markets outside of the United States.

Today, as was the case in your last sunset review, only six solid urea producers are operating in the United States, although one producer, Agrium, has now closed its

largest U.S. plant in Kenai, Alaska. This compares to the two dozen or so that were operating when the case was filed in 1986. The remaining producers are the most efficient producers and those best positioned to compete. All remaining plants serve the U.S. market and generally do not serve customers outside of the United States.

It is important for the Commission to recognize that while world supply and demand conditions do affect the U.S. market, a number of different factors result in price differences between the U.S. market and urea markets in other parts of the world. These include transportation costs, both ocean freight and inland, delivery time, and foreign government policies, such as tariffs, import limitations or export restrictions. Because different prices typically exist in different countries, and because urea is a fungible commodity, exporters and traders will generally take urea to the locations that not only offer the best net-back, but also can take the largest volumes. A trader's total profit is affected both by his margin and his total sales volume.

Russia and Ukraine continue to be the world's largest exporters. The United States is the largest single importing country. Our market will be very attractive to Russian and Ukrainian supply, just as it is for other imports. The attractiveness of our market is based on a number of factors. First, as I just noted, the United States is the single largest importing country worldwide. Second, the United States has a favorable business climate, a transparent market and no duties at all on urea as compared with significant import duties imposed in many other markets. Third, payment is in U.S. currency. Fourth, unloading delays and port congestion, which are frequent in Latin American and Asian ports, and which can result in significant demurrage charges and delays, are not as common here. Finally, buyers in the United States are better

capitalized and have consistent access to funding, making the U.S. an even more attractive destination when market conditions are difficult.

In fact, as you may recall, in the last sunset review we called to your attention the rapidity with which traders and importers moved urea from Belarus, Estonia, and Romania into the United States almost immediately after the antidumping orders on urea from those countries were revoked. To us, this was a clear demonstration of the continued attractiveness of the U.S. market and the ability of traders to rapidly move product here. In this review, the Commission has another example of that phenomenon. China's role in the global urea market has changed significantly over the last five years. China has gone from being a major importer of solid urea in the late 1990s, to a net exporter. China banned urea imports starting in 1998 in order to establish its own industry, and now impacts the global market each year by its fluctuating export tax policies, which operate to increase or significantly reduce Chinese supply. Since the Commission last examined the U.S. urea industry, one development is China's presence in the U.S. market. Available Chinese supply—both prilled and granular—has been moved into the United States in significant quantities when it has been available, and in 2010, China was the largest source of import supply outside of Canada. Much of this was moved by large trading companies, and neither product form nor shipping distances were a barrier to the ability of Chinese product to be rapidly made available. The same would be true of Russian and Ukrainian product, which could be offered at prices below what we have even seen from China. And that brings me to CF Industries' reasons for asking this Commission to continue the Russian and Ukrainian orders for another five years.

You know, and it is a matter of public record, that CF Industries is doing extremely well. The last two years have been very good for us, to say the least. We have had the convergence of a number of extraordinary factors which not even the most talented corporate planner could have predicted. The global supply-demand balance has been extremely favorable in recent periods. While there was a significant addition of global capacity, as we had told the Commission there would be in this most recent five-year period, what we could not have predicted was that demand would be substantially strengthened as a result of (1) high farm commodity prices leading to increased acreage and increased use of nitrogen to boost crop yields; (2) significantly increased import demand from India; and (3) and adjustment to the renewable fuels standard (or "RFS") that required the increased use of ethanol in gasoline blends. These "demand side" factors have led to a favorable supply-demand balance which in turn has brought about the construction and imminent addition of more global supply. Much of the new export supply will come from the Middle East and North Africa. As the Commission has seen, industry experts and the International Fertilizer Association expect this additional new supply to soften the current balance considerably over the next five years.

In addition to a market which is favorably balanced at the moment, our performance has been positively impacted in the last two years by a period of stable natural gas pricing. As you will remember, natural gas is our feedstock and accounts for about half of our solid urea production costs, depending on the price of the gas. The availability of natural gas from shale using "fracking" technology has added to natural gas supplies and moderated gas prices. It is important for the Commission to understand two things about our current gas situation. First, even the relative stability we have

experienced recently is no guarantee that prices will be flat or stable in the future. The EIA similarly projects natural gas price increases over this period in the range of about 15 percent. Second, while we believe that the natural gas situation should remain stable, as our annual reports and 10Ks make clear, the volatility of natural gas pricing is one of the significant risk factors in our business. As the Commission has seen, even during this most recent five year review period, the price of natural gas has swung wildly, from a high of $8.76 per MMBTU and $12.61 per MMBTU in 2006 and 2008, respectively, to a low of $2.90 in late 2009 (based on Henry Hub pricing). While the availability of natural gas from shale sources should mean stable natural gas supply and pricing in the near term, there are a variety of factors which could change this situation over a relatively short period. These include government policies or regulations concerning the use of fracking; policies that would artificially increase the demand for natural gas by encouraging or requiring the use of natural gas rather than other energy sources; and natural disasters, such as the successive Gulf hurricanes experienced in 2005 and 2006.

In deciding to seek continuation of the Russian and Ukrainian antidumping orders, we took into account, however, not only our own natural gas pricing and business cycle situations. We looked carefully at what has transpired in the last five years in Russia and Ukraine.

Russia, which quite promisingly announced in 2006 a plan to "liberalize" its domestic industrial natural gas prices by January of 2011, has not fulfilled that plan. Today, Russian industrial natural gas prices remain at about half the level that the Russian Government's own liberalization plan defined as a market-tied price. The liberalization of natural gas prices that should have occurred by the beginning of this year

has been postponed, and pushed down the road, and it is not clear to us when or if it will actually occur. Russia has even stopped publishing the quarterly indications of what the liberalized price would be if it were in effect. This published price was made available each quarter starting in early 2007, even though it was not yet in effect, to help Russian industrial users anticipate and adjust to the changes. It appears that even that promising step has been abandoned. The continuing non-market basis for urea production in Russia means that factories which are otherwise outdated and inefficient continue to produce and export, that Russian suppliers continue to bring product to the export market at prices which are consistently the lowest in the world, and that Russian producers, in some cases, are able to invest in new plants—including granulation facilities that might not otherwise be built. Moreover, the natural gas price increases that have occurred have not impacted Russia's export capability significantly due in part to Russia's devaluation of the ruble.

In Ukraine, the situation is murky, at best. We saw a number of years in which it appears that the Government of Ukraine was assisting Ukrainian suppliers by reducing the gas price to Ukrainian plants. In recent periods, it appears that some arrangements have been made to supply favorably-priced natural gas to Ukrainian plants through arrangements made with Gazprom-invested joint ventures. (Gazprom is, of course, the Russian natural gas producer and supplier.) What is clear is that Ukraine has continued to produce and export enormous quantities of urea, despite significant increases in the price of natural gas supplied to Ukraine from Russia, natural gas prices which are clearly not being reflected in Ukrainian production costs or in export prices.

Another important factor for us in deciding to request continuation has been our experience over the last five years with the Russian producer that has been active in

selling urea in the United States. EuroChem, now one of the largest producers in Russia, entered the U.S. market beginning in 2006. Once it reduced its cash deposit rates, its subsequent shipments were dumped by significant margins. More importantly, however, its shipments were at low prices that caused more than a ripple in the market, as reflected in industry publications. The commodity nature of the urea market, and wide dissemination of pricing information, means that even a single shipment of low priced product will cause buyers to seek price reductions. That is what happened with the EuroChem shipments, and we can share our company's experience with EuroChem's activities on a confidential basis, if that would be of interest to the Commission. Our experience with EuroChem's continued dumping, its behavior in the market and its self-proclaimed targeting of the U.S. market, combined with expected market conditions over the next five years led us to conclude that these orders are still needed. And that is why we are here today.

I thank you for your time and attention, and I look forward to answering your questions.